

Message Text

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PAGE 01 ISLAMA 06480 01 OF 02 241209Z
ACTION TRSE-00

INFO OCT-01 EUR-12 NEA-10 IO-14 ISO-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 EB-07 FRB-01 H-02 INR-07
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-02 EPG-02
AID-05 SS-15 STR-04 ITC-01 USIA-15 PRS-01 SP-02
FEAE-00 OMB-01 XMB-04 OPIC-06 SIL-01 /131 W
-----073911 241338Z /45

R 240617Z JUN 77
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 2446
USMISSION GENEVA
INFO AMEMBASSY PARIS
AMCONSUL KARACHI
AMCONSUL LAHORE

UNCLAS SECTION 1 OF 2 ISLAMABAD 6480/1

GENEVA FOR USMTN
PARIS FOR OECD

E.O. 11652: N/A
TAGS: ETRD, PK
SUBJ: CHANGES IN PAKISTAN'S IMPORT CONTROLS/TARIFFS

REF: (A) STATE 68485 (B) ISLAMABAD 3562, (C) ISLAMABAD 6122

1. SUMMARY: IN PRESENTING THE NEW BUDGET, THE GOP HAS
ANNOUNCED A NUMBER OF CHANGES IN IMPORT TARIFFS. TARIFFS

HAVE BEEN REDUCED ON TWO MAJOR CONSUMER ITEMS, UNPACKAGED
TEA AND SCOOTER TIRES/TUBES, AND ON SEVERAL INDUSTRIAL
RAW MATERIALS. TARIFFS WERE INCREASED SPECIFICALLY ON
WOOD, TIMBER, BUILDING BOARDS AND A BROAD, AS YET
UNDEFINED, CATEGORY OF INDUSTRIAL MACHINERY, TARIFFS ON
ALL DUTIABLE ITEMS WERE RAISED 20 PERCENT ACROSS THE BOARD.
AT THE SAME TIME, THE STATE BANK CHANGED MARGIN REQUIRMENTS
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FOR OPENING LETTERS OF CREDIT. THE STATE BANK ACTION
RETAINS NO L/C MARGIN REQUIREMENTS FOR CERTAIN
MACHINERY, PETROLEUM PRODUCTS, PUBLICATIONS, SYNTHETIC
YARN/FIBERS AND TIED LIST ITEMS, THE EXISTING 25
PERCENT MARGIN IS RETAINED FOR SOME FOOD ITEMS,
MEDICINES, SECOND-HAND CLOTHING, ELECTRIC BULBS AND,
ENGINEERING AND CONSTRUCTION EQUIPMENT. INDUSTRIAL

RAWA MATERIALS MOVES FROM ZERO MINIMUM TO THE 25 PERCENT CATEGORY. ON ALL OTHER ITEMS, THE MINIMUM L/C MARGIN REQUIREMENT IS INCREASED TO 40 PERCENT. END SUMMARY.

2. IN PRESENTING THE ANNUAL BUDGET, THE MINISTER OF FINANCE ANNOUNCED AN INCREASE IN TARIFFS ON ALL DUTIABLE ITEMS BY 20 PERCENT. THIS INCREASE IS, IN EFFECT, A PERMANENT SURCHARGE RATHER THAN AN ADDITIONAL AD VALOREM AND IS BASED UPON DUTY RATES EXCLUSIVE OF THE 10 PERCENT IMPORT SURCHARGE AUTHORIZED LAST YEAR WHICH REMAINS IN EFFECT.

3. AT THE SAME TIME, AS A POLITICAL SOP TO THE CONSUMER, UNPACKAGED TEA WAS MADE DUTY FREE, AND TIRES AND TUBES FOR SCOOTERS AND MOTOR RICKSHAWS (BTN 0902) WERE REDUCED FROM 85 PERCENT TO 60 PERCENT AD VALOREM. DUTY ON TEA IN RETAIL PACKAGES, HOWEVER, WAS CHANGED FROM A SPECIFIC CHARGE OF 65 PAISA PER LB. TO 40 PERCENT WHICH RESULTS IN AN INSIGNIFICANT REDUCTION.

4. AS A COMBINATION SIGNAL TO INDUSTRY AND RATIONALIZATION OF TARIFF DUTIES, SEVERAL RAW MATERIALS WERE REDUCED IN TARIFF. FERROUS ALLOYS, IRON AND STEEL WASTE AND SCRAP, IRON AND STEEL BILLETS AND COPPER UNCLASSIFIED

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(BTN'S 73.02, 73.03, 73.07 AND 74.01 RESP.) WERE REDUCED FROM 42.5 PERCENT TO 30 PERCENT. COPPER WIRE (BTN 74.03) GOES FROM 92.5 PERCENT TO 60 PERCENT. QUARTZ AND SLATE (BTN 25.06 AND 25.14) WERE REDUCED FROM 72.5 PERCENT TO 40 PERCENT. CLAY (BTN 25.07) WAS REDUCED FROM 60 PERCENT TO 40 PERCENT.

5. SPECIFIC TARIFF INCREASES WERE ANNOUNCED IN THREE CATEGORIES. WOOD AND TIMBER (BTN 44.03) INCREASES IN TARIFF FROM 60 PERCENT TO 600 PERCENT. ALSO ANNOUNCED WAS AN INCREASE IN DUTY ON INDUSTRIAL MACHINERY FROM 20 PERCENT TO 25 PERCENT. THE SPECIFIC ITEMS TO BE INCLUDED IN THE INDUSTRIAL MACHINERY INCREASE HAVE NOT BEEN ANNOUNCED.

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UNCLAS SECTION 2 OF 2 ISLAMABAD 6480/2

GENEVA FOR USMT
PARIS FOR OECD

6. IN THE STATE BANK OF PAKISTAN ACTION, WHICH IS UNRELATED TO THE BUDGET BUT WAS ANNOUNCED THE SAME DAY, THERE WILL BE RPT NO REQUIRED MINIMUM MARGIN DEPOSIT FOR OPENING LETTERS OF CREDIT FOR: INDUSTRIAL MACHINERY, AGRICULTURAL MACHINERY, COMPONENTS AND SPARES FOR ALL SUCH MACHINERY, EDIBLE OIL, CRUDE OIL, PETROLEUM PRODUCTS, BOOKS, MAGAZINES, JOURNALS, PERIODICALS, SYNTEHTIC TIBERS/YARNS, AND ITEMS UNDER THE TIED LIST. THE PRESENT MINIMUM L/C MARGIN REQUIREMENT OF 25 PERCENT WILL BE RETAINED FOR: MILK, CREAM, BABY FOOD, TEA, BUTTE, MEDICINES, SPICES, SECOND-HAND CLOTHING, ELECTRIC BULBS, UNEXPOSED FILMS AND CONSTRUCTION AND ENGINEERING EQUIPMENT. INDUSTRIAL RAW MATERIALS MOVES FROM ZERO TO 25 PERCENT MINIMUM MARGIN. THE MINIMUM REQUIRED L/C MARGIN FOR ALL OTHER ITEMS IS INCREASED TO 40 PERCENT.

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7. THE OVERALL EFFECT OF THE TARIFF AND L/C MARGIN WILL BE A REDUCTION IN THE IMPORT COST OF UNPACKAGED TEA, SOME SLIGHT REDUCTION IN COST O OF THE SMALL TIRES/TUBES AS TARIFFS COME DOWN AND MARGIN REQUIREMENTS INCREASE, SLIGHT REDUCTION IN COSTS OF THE DESIGNATED RAW MATERIALS AS TARIFFS LOWER AND A NEW

MARGIN REQUIREMENT IS IMPOSED, AND SLIGHT INCREASE IN COSTS OF INDUSTRIAL MACHINERY AS TARIFFS INCREASE WITH THE MARGIN REQUIREMENTS UNCHANGED. THE ONE CHANGE WITH KNOWN SIGNIFICANT EFFECT ON US TRADE IS THE REDUCTION IN TARIFF ON IRON AND STEEL WASTE AND SCRAP. THE US SOLD TO PAKISTAN APPROXIMATELY DOLS9.45 MILLION DURING THE LAST CALENDER YEAR. THE INCREASE IN TARIFF ON INDUSTRIAL MACHINERY COULD AFFECT US TRADE BUT THIS WILL BE IMPOSSIBLE TO EVALUATE UNTIL WE DETERMINE WHICH ITEMS ARE COVERED.

8. WHILE THERE ARE OBVIOUSLY SOME IMPORT RESTRAINT FEATURES IN THE TARIFF MEASURES ANNOUNCED WITH THE BUDGET, THE PRIMARY PURPOSE OF THESE MEASURES IS TO INCREASE REVENUE. (SEE REF C FOR EMBASSY'S BUDGET ANALYSIS.) THIS REVENUE PORITION OF THE GOP BUDGET IS INCREASINGLY INCOME INELASTIC WITH ONLY A SMALL PORITION OF TAX REVENUE FROM INCOME TAXES (16 PERCENT IN FY 77). WITH OVER ONE-THIRD OF TAX REVENUES GENERATED BY CUSTOMS DUTIES AND ABOUT ANOTHER THIRD FROM EXCISE TAXES, THE GOP FREQUENTLY FINDS ITSELF HAVING TO RAISE RATES IN ORDER TO KEEP TAX REVENUES IN LINE WITH INFLATION.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, IMPORT CONTROLS, TARIFFS
Control Number: n/a
Copy: SINGLE
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
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Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770226-0727
Format: TEL
From: ISLAMABAD
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t19770623/aaaaatqp.tel
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Office: ACTION TRSE
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 77 STATE 68485, 77 ISLAMABAD 3562, 77 ISLAMABAD 6122
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 08-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2047321
Secure: OPEN
Status: NATIVE
Subject: CHANGES IN PAKISTAN'S IMPORT CONTROLS/TARIFFS
TAGS: ETRD, PK
To: STATE GENEVA
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/b1834977-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009